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March 27, 2013

Charter School Board  
Irvington Community School, Inc.  
5751 E. University Avenue  
Indianapolis, IN 46219

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Sikich, LLP, Independent Public Accountants, for the period July 1, 2010 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Irvington Community School, Inc., as of June 30, 2012 and 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Page 27 contains one current audit finding. Management's Corrective Action Plan is on pages 29 and 30.

In addition to the report presented herein, a Supplemental Audit Report for Irvington Community School, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

*State Board of Accounts*

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## **Irvington Community School, Inc.**

**Financial Statements  
With Supplemental Information  
June 30, 2012 and 2011**



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Members of American Institute of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Irvington Community School, Inc.  
Indianapolis, Indiana:

We have audited the accompanying statements of financial position of Irvington Community School, Inc. (an Indiana non-profit organization) as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Irvington Community School, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Irvington Community School, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2013, on our consideration of Irvington Community School, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organization, and State Board of Audit Reports* and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Sikich, LLP". The signature is written in a cursive, flowing style.

Sikich LLP

Indianapolis, Indiana  
February 26, 2013

**IRVINGTON COMMUNITY SCHOOL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2012 AND 2011**

**ASSETS**

	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS:</b>		
Cash	\$ 18,075	\$ 321,628
Grants receivable	3,218,558	2,887,059
Prepaid expenses	<u>4,643</u>	<u>11,084</u>
Total Current Assets	<u>3,241,276</u>	<u>3,219,771</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Furniture and equipment	549,290	505,447
Computer hardware	542,415	521,430
Computer software	101,677	56,193
Leasehold improvements	3,543,821	3,525,460
Books and educational materials	524,226	420,180
Building	3,858,083	3,858,083
Land	556,899	556,899
Less: accumulated depreciation	<u>(2,162,971)</u>	<u>(1,776,665)</u>
Total Property and Equipment, net	<u>7,513,440</u>	<u>7,667,027</u>
<b>OTHER ASSETS:</b>		
Bond fees, net of amortization of \$432,925 and \$288,617, respectively	<u>1,217,280</u>	<u>1,361,588</u>
	<u>\$ 11,971,996</u>	<u>\$ 12,248,386</u>

See accompanying notes to financial statements.

**IRVINGTON COMMUNITY SCHOOL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
 (continued)  
 JUNE 30, 2012 AND 2011

**LIABILITIES AND NET ASSETS**

	<u>2012</u>	<u>2011</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 501,355	\$ 391,998
Line of credit	400,000	-
Current portion of obligation under capital leases	183,226	116,543
Current portion of notes payable	116,712	89,517
Accrued expenses	<u>4,849</u>	<u>3,259</u>
Total Current Liabilities	<u>1,206,142</u>	<u>601,317</u>
<b>LONG TERM LIABILITIES:</b>		
Accrued interest - Common School Loans	235,241	137,292
Common School Loan	2,709,425	2,709,425
Obligations under		
capital leases, net of current portion	85,175	268,401
Loans payable, net of current portion	<u>9,289,138</u>	<u>9,405,850</u>
Total Long Term Liabilities	<u>12,318,979</u>	<u>12,520,968</u>
<b>NET ASSETS:</b>		
Unrestricted	(1,605,165)	(980,231)
Temporary restricted	<u>52,040</u>	<u>106,332</u>
Total Net Assets	<u>(1,553,125)</u>	<u>(873,899)</u>
	<u>\$ 11,971,996</u>	<u>\$ 12,248,386</u>

See accompanying notes to financial statements.

**IRVINGTON COMMUNITY SCHOOL, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2012**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT:</b>			
School lunch program	\$ 188,817	\$ -	\$ 188,817
Student and textbook fees	242,323	-	242,323
Before and after school programs	39,867	-	39,867
Contributions and donations	37,777	-	37,777
Grant revenue	7,848,991	808	7,849,799
Rental revenue	7,259	-	7,259
Interest income	438	-	438
Refund -interest expense	53,978	-	53,978
Other revenue	41,699	-	41,699
In-kind contributions	650	-	650
Net assets released from restrictions by satisfaction of temporary restrictions	<u>55,100</u>	<u>(55,100)</u>	<u>-</u>
Total Revenues and Support	<u>8,516,899</u>	<u>(54,292)</u>	<u>8,462,607</u>
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES:</b>			
Program services	8,448,800	-	8,448,800
Supporting services:			
General and administrative	681,633	-	681,633
Fundraising	<u>11,400</u>	<u>-</u>	<u>11,400</u>
Total Expenses	<u>9,141,833</u>	<u>-</u>	<u>9,141,833</u>
<b>CHANGE IN NET ASSETS</b>	(624,934)	(54,292)	(679,226)
<b>NET ASSETS</b> , beginning of year	<u>(980,231)</u>	<u>106,332</u>	<u>(873,899)</u>
<b>NET ASSETS</b> , end of year	<u>\$ (1,605,165)</u>	<u>\$ 52,040</u>	<u>\$ (1,553,125)</u>

See accompanying notes to the financial statements.



**IRVINGTON COMMUNITY SCHOOL, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2011**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT:</b>			
School lunch program	\$ 159,926	\$ -	\$ 159,926
Student and textbook fees	139,368	-	139,368
Before and after school programs	18,697	-	18,697
Contributions and donations	11,505	-	11,505
Grant revenue	6,883,772	106,332	6,990,104
Rental revenue	7,001	-	7,001
Interest income	1,297	-	1,297
Refund - interest expense	35,074	-	35,074
Other revenue	120,183	-	120,183
In-kind contributions	<u>1,425</u>	<u>-</u>	<u>1,425</u>
 Total Revenues and Support	 <u>7,378,248</u>	 <u>106,332</u>	 <u>7,484,580</u>
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES:</b>			
Program services	7,535,391	-	7,535,391
Supporting services:			
General and administrative	631,359	-	631,359
Fundraising	<u>11,400</u>	<u>-</u>	<u>11,400</u>
 Total Expenses	 <u>8,178,150</u>	 <u>-</u>	 <u>8,178,150</u>
<b>CHANGE IN NET ASSETS</b>	(799,902)	106,332	(693,570)
<b>NET ASSETS</b> , beginning of year			
As previously reported	(115,292)	-	(115,292)
 Prior period adjustment for understatement of accrued interest from Common School Loans	 <u>(65,037)</u>	 <u>-</u>	 <u>(65,037)</u>
<b>NET ASSETS</b> , beginning of year As restated	 <u>(180,329)</u>	 <u>-</u>	 <u>(180,329)</u>
<b>NET ASSETS</b> , end of year	<u>\$ (980,231)</u>	<u>\$ 106,332</u>	<u>\$ (873,899)</u>

See accompanying notes to the financial statements.

**IRVINGTON COMMUNITY SCHOOL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (679,226)	\$ (693,570)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	533,114	546,637
(Increase) decrease in:		
Grants receivable	(331,499)	(484,852)
Prepaid expense	6,441	17,966
Increase (decrease) in:		
Accounts payable	109,357	192,511
Accrued expenses	1,590	9,789
Accrued interest	97,949	72,255
	<u>                    </u>	<u>                    </u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(262,274)</u>	<u>(339,264)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	<u>(235,219)</u>	<u>(1,389,736)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(235,219)</u>	<u>(1,389,736)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings under line of credit agreement	400,000	-
Long-term debt borrowings	147,378	2,130,812
Long-term debt repayments	<u>(353,438)</u>	<u>(405,963)</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>193,940</u>	<u>1,724,849</u>
<b>NET DECREASE IN CASH</b>	(303,553)	(4,151)
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>321,628</u>	<u>325,779</u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u>\$ 18,075</u>	<u>\$ 321,628</u>

See accompanying notes to the financial statements.

**IRVINGTON COMMUNITY SCHOOL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations** - Irvington Community School, Inc. (the "School") was incorporated in 2001, under the laws of the State of Indiana and commenced operations in September 2002. The School is an inner-city Indianapolis charter school that provides small, safe learning community where respectful behaviors are modeled and expected. The School's primary source of revenue and support are grants from the Indiana Department of Education.

**Basis of Accounting** - The financial statements of the School have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses when the obligation is incurred.

**Basis of Presentation** - As required by Financial Statement Presentation Disclosure topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

**Net Assets** - The financial statements report amounts separately by class of net assets:

**Unrestricted net assets** - Unrestricted amounts are those currently available for use in the School's activities.

**Temporarily restricted net assets** - Temporarily restricted expendable amounts are those which are restricted by donors for specific purposes. As of June 30, 2012 and 2011, the School had \$52,040 and \$106,332 of temporarily restricted net assets, respectively.

**Permanently restricted net assets** - Net assets subject to donor-imposed stipulations require that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on the related investments for general or specific purposes. As of June 30, 2012 and 2011, the School had no permanently restricted net assets.

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the School considers all investments purchased with a maturity of three months or less to be cash equivalents.

**Grants Receivable** - Grants receivable represent the uncollected portion of funds from grants awarded to the School.

Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2012 and 2011, based on management's estimate of the amount of receivables that will actually be collected. Grants receivables are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts.

**Property and Equipment** - Property and equipment are recorded at cost or, if contributed, at the estimated fair value at the date of the gift. The School capitalizes additions of property and equipment in excess of \$1,000 cost or fair value, if contributed. Depreciation of property and equipment is computed using the straight-line method and based upon the estimated useful lives of the assets ranging from 3 to 40 years. Expenditures for property and equipment and for renewals or improvements which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statements of activities.

Depreciation expense was \$388,805 and \$402,329 for the years ended June 30, 2012 and 2011, respectively.

**Bond Fees** - The School amortizes the loan fees on the straight-line method over the life of the bonds which is fifteen years. Amortization expense amounted to \$144,308 and \$144,308 for the years ended June 30, 2012 and 2011, respectively. Amortization expense is estimated to be approximately \$144,308 for each of the next fourteen years.

**Impairment of Long-lived Assets** - The School evaluates long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. Management has determined that no impairment existed for the year ended June 30, 2012 and 2011.

**Contributed Materials and Services** - Contributed services are recognized as contributions in accordance with Contributions Disclosure Topic of FASB ASC, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

The School received \$650 and \$1,425 of in-kind contributions during June 30, 2012 and 2011, respectively. At June 30, 2012, these amounts consist of \$350 of materials and \$300 of services provided by various individuals and businesses provided at no charge. At June 30, 2011, these amounts consist of \$1,425 of materials donated by an individual at no charge.

Volunteers provide program services throughout the year that are not recognized as contributions in the financial statements since they do not meet the recognition criteria under Contributions Disclosure Topic of FASB ASC. These services include volunteering at events, picking up donations, and various clerical work.

**Revenue Recognition** - The School reports grants of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the grant is received, the School reports the support as unrestricted.

**Functional Expense Allocation** - The costs of providing the various programs and other activities have been summarized in the statement of activities. Some expenses relate directly to specific programs or supportive services while others do not. Expenses that relate to more than one program or supporting service are allocated among the applicable functions. The allocation is based on a formula contained within the grant documents.

Costs are allocated to the programs and supporting services. Management periodically evaluates its allocation method and revises it when necessary. Management and general expenses include those expenses that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the School.

**Estimates** - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could vary from the estimates that were used.

**Advertising** - The School expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2012 and 2011 was \$21,360 and \$13,735, respectively.

**Income Taxes** - The School is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The School is not considered to be a private foundation. Accordingly, no provision for income taxes has been reflected in the School's financial statements.

The School has adopted the provisions of Uncertain Tax Positions Disclosure Topics of FASB ASC, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has not been met. This guidance also addresses de-recognition, classification, interest and penalties, disclosure, and transition. In the normal course of business, the School is subject to examination by taxing authorities. The School's tax returns for years subsequent to fiscal year 2008 are open, by statute, for review by authorities. However, at present there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the School currently files or has filed.

**Concentration of Credit Risk** - Financial instruments that potentially subject the School to concentrations of credit risk consist principally of temporary cash investments and grants receivable.

The School places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. There was \$0 and \$28,710 in excess of FDIC insured limits at June 30, 2012 and 2011, respectively.

Concentrations of credit risk with respect to grants receivable are limited due to the School's ability to accomplish the terms of the grants. Credit losses, if any, have been provided in the financial statements and have been within management's expectations.

Operating Funds from the Indiana Department of Education amounted to 92% and 95% of the School's support and revenue in June 30, 2012 and 2011, respectively. A state funding formula is used to determine the amount of revenue a charter school receives. The formula is based on the number of students enrolled in the school during the year.

## NOTE 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

**Education** - The School focuses on hiring the best available teaching talent and providing their teachers with the resources to ensure success in the classroom. This not only includes physical equipment, especially the use of the latest instructional technology, but also employing a performance management system to provide constructive ongoing feedback as a method of continuous improvement. Teachers are coached on developing effective instructional classroom management techniques beyond their school of education training, because ISTEP is the ultimate measure of success of the School's students and teachers in elementary and middle school. The School uses NWEA assessment in grades K-8 to track students' learning progress and prepare them for standardized testing in the spring. Classroom curriculum is, of course, fine-tuned to prepare students for ISTEP. Similarly, the students receive the end of course assessment (ECA) several times during their high school career in preparation to qualify for graduation.

## NOTE 3 - OPERATING LEASES

The School leases multiple copiers from Toshiba Business Solutions. During June 30, 2012 and 2011, the School had required monthly payments of \$2,861. At the end of the 2012, the School agreed on a new lease with Toshiba Business Solutions, which expires January 2018, requiring monthly payments of \$4,189. The School also leases a postage machine from Pitney Bowes. The lease, which expires March 2014, requires quarterly payments of \$290. During the year ended June 30, 2012 and 2011, \$60,014 and \$41,396 was expensed, respectively.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2012 are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 51,432
2014	51,142
2015	50,272
2016	50,272
2017 and thereafter	<u>54,462</u>
	<u>\$ 257,580</u>

## NOTE 4 - LINE OF CREDIT

The School has a \$400,000 revolving bank line of credit expiring on September 10, 2012. At June 30, 2012 and 2011, there was \$400,000 and \$0 borrowed against this line, respectively. The line is unsecured. Interest varies with the prime rate as published in the Wall Street Journal (the "Index") plus 1.00%, which was 3.25% on June 30, 2012. Subsequently, the School has renewed the line of credit through July 10, 2013.

## **NOTE 5 - PENSION PLAN**

### 403(b) Plan

The School's faculty and certain administrative employees are participants in a 403(b) tax deferred annuity retirement plan. All participants may contribute to the Plan. There was an employer match contribution of \$190,957 and \$149,279 to the Plan in the years ended June 30, 2012 and 2011, respectively.

### Indiana Public Retirement System

#### ***Plan Description***

The School elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011. The School contributes to INPRS, an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under Internal Revenue Code Section 401(a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all School employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

Participants have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

#### ***Funding Policy and Annual Pension Cost***

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

The School contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School

currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

## NOTE 6 - LONG-TERM DEBT ACTIVITY

Long-term debt of governmental activities included the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in July 2028 (a)	\$ 44,615	\$ 44,615
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in July 2029 (a)	234,500	234,500
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in July 2030 (a)	236,108	236,108
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in January 2031 (a)	282,732	282,732
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in July 2031 (a)	299,740	299,740
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in July 2031 (a)	45,225	45,225
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in January 2032 (a)	11,429	11,429
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in July 2032 (a)	291,128	291,128
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in July 2032 (a)	381,658	381,658
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in January 2033 (a)	360,899	360,899
Loan Payable in semi - annual installments, including interest computed at 4%, Through maturity in January 2033 (a)	521,391	521,391
Bonds Payable in semi - annual installments, including interest computed at 6.59%, Through maturity in December 2030 (b)	1,285,483	1,300,000
Bonds Payable in semi - annual installments, including interest computed at 7.75%, Through maturity in July 2023	1,040,000	1,040,000
Bonds Payable in semi - annual installments, including interest computed at 8%, Through maturity in July 2029	1,385,000	1,385,000



Bonds Payable in semi - annual installments, including interest computed at 9%, Through maturity in July 2039	5,325,000	5,325,000
Bonds Payable in semi - annual installments, including interest computed at 8.375%, Through maturity in July 2016	320,000	395,000
Bonds Premium Amortized in semi - annual installments, straight line, Through maturity in July 2014	50,367	50,367
Less: current maturities	<u>(116,712)</u>	<u>(89,517)</u>
Total Long-term Debt	<u>\$ 11,998,563</u>	<u>\$ 12,115,275</u>

(a) The State of Indiana advanced funds from the Common School Fund to assist the School during its initial years of operations. Under the terms of the agreements with the State of Indiana, the School agreed to repay these loans through deductions from the School's share of State Tuition Support. In 2011, the Indiana Common School Fund granted a second moratorium on loan payments. Payments will commence on July 1, 2013.

(b) Qualified School Construction Bonds (QSCBs). Under the American Recovery and Reinvestment Act of 2009, the Federal Treasury created QSCBs tax credit bonds, which provide federal subsidy equal to 5% interest.

At June 30, 2012, the debt service requirements of loans payable for governmental activities were as follows:

<u>Year Ending</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
June 30,2014	\$ 273,360	\$ 885,314	\$ 1,158,674
June 30,2015	281,023	870,185	1,151,208
June 30,2016	293,867	854,037	1,147,904
June 30,2017	301,904	837,278	1,139,182
June 30,2018- and there after	<u>10,848,409</u>	<u>14,178,942</u>	<u>25,027,351</u>
	<u>\$ 11,998,563</u>	<u>\$ 17,625,756</u>	<u>\$ 29,624,319</u>

Total interest paid during the years ended June 30, 2012 and 2011 was \$911,055 and \$790,295, respectively.

## NOTE 7 - CAPITAL LEASE COMMITMENTS

The School leases equipment in the ordinary course of business. The School is obligated under multiple capital lease commitments which have various maturity dates, and require various monthly payments.

The assets and liabilities under capital leases are recorded at the fair value of the assets. The assets are depreciated over their estimated useful lives of five years.

As leases expire, the School would normally expect to purchase the equipment.

At June 30, 2012 the required minimum capital lease payments are as follows for the years ended:

<u>Year</u>	<u>Amount</u>
2013	\$ 183,226
2014	51,206
2015	<u>33,970</u>
	<u>\$ 268,402</u>

#### **NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2012 and 2011 are available for the following purposes:

	<u>2012</u>	<u>2011</u>
ARRA Title I	\$ -	\$ 27,182
Title I	51,232	79,150
Early Intervention	<u>808</u>	<u>-</u>
	<u>\$ 52,040</u>	<u>\$ 106,332</u>

During June 30, 2012 and 2011, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2012</u>	<u>2011</u>
ARRA Title I	\$ 27,182	\$ -
Title I	<u>27,918</u>	<u>-</u>
	<u>\$ 55,100</u>	<u>\$ -</u>

#### **NOTE 9 - PRIOR PERIOD ADJUSTMENT**

During 2012, the School discovered unrecorded accrued interest expense for Common School Loans from the State of Indiana was understated by \$65,037 in the prior years. As a result, a prior period adjustment has been made to increase the accrued interest – Common School Loan account balance and decrease the balance in unrestricted net assets.

**NOTE 10 - SUBSEQUENT EVENT**

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through February 26, 2013, the date the financial statements were available to be issued.

**IRVINGTON COMMUNITY SCHOOL, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2012**

	<u>Program Service Expenses</u>			<u>Supporting Services</u>		
	<u>Grants</u>	<u>Academics</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and benefits	832,893	4,762,047	5,594,940	312,038	11,400	5,918,378
Professional services	83,686	235,529	319,215	110,581	-	429,796
Information technology	-	132,308	132,308	6,964	-	139,272
Accounting and payroll services	-	88,542	88,542	4,660	-	93,202
Legal services	-	-	-	10,963	-	10,963
Cleaning services	-	113,193	113,193	5,958	-	119,151
Security services	-	18,054	18,054	950	-	19,004
Utilities	-	122,575	122,575	6,451	-	129,026
Materials, supplies, fees, and postage	3,271	129,137	132,408	91,389	-	223,797
Nutritional support	-	325,077	325,077	3,145	-	328,222
Sales, marketing, and community relations	-	24,839	24,839	1,307	-	26,146
Travel and entertainment	-	33,907	33,907	23,322	-	57,229
Vehicle and transportation expense	1,616	36,071	37,687	-	-	37,687
Rent and facilities	-	61,663	61,663	3,245	-	64,908
Depreciation and amortization	-	506,458	506,458	26,656	-	533,114
Interest expense	-	865,502	865,502	45,553	-	911,055
Insurance	-	50,605	50,605	2,663	-	53,268
Small equipment purchases	-	20,833	20,833	1,096	-	21,929
Miscellaneous	-	994	994	24,692	-	25,686
 Total direct program expenses	 <u>921,466</u>	 <u>7,527,334</u>	 <u>8,448,800</u>	 <u>681,633</u>	 <u>11,400</u>	 <u>9,141,833</u>

See accompanying notes to the financial statements.

**IRVINGTON COMMUNITY SCHOOL, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2011**

	<u>Program Service Expenses</u>			<u>Supporting Services</u>		
	<u>Grants</u>	<u>Academics</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and benefits	641,090	4,331,607	4,972,697	178,759	11,400	5,162,856
Professional services	54,893	232,228	287,121	157,812	-	444,933
Information technology	-	65,643	65,643	3,455	-	69,098
Accounting and payroll services	-	72,822	72,822	3,833	-	76,655
Legal services	-	-	-	97,773	-	97,773
Cleaning services	-	108,858	108,858	5,729	-	114,587
Security services	-	37,832	37,832	1,991	-	39,823
Utilities	-	114,627	114,627	6,033	-	120,660
Materials, supplies, fees, and postage	70	94,822	94,892	77,982	-	172,874
Nutritional support	-	344,524	344,524	-	-	344,524
Sales, marketing, and community relations	-	19,584	19,584	1,031	-	20,615
Travel and entertainment	-	7,681	7,681	7,991	-	15,672
Vehicle and transportation expense	-	32,521	32,521	-	-	32,521
Rent and facilities	-	42,359	42,359	2,229	-	44,588
Depreciation and amortization	-	519,305	519,305	27,332	-	546,637
Interest expense	-	750,780	750,780	39,515	-	790,295
Insurance	-	39,850	39,850	2,097	-	41,947
Small equipment purchases	-	22,410	22,410	1,179	-	23,589
Miscellaneous	-	1,885	1,885	16,618	-	18,503
	<u>696,053</u>	<u>6,839,338</u>	<u>7,535,391</u>	<u>631,359</u>	<u>11,400</u>	<u>8,178,150</u>
Total direct program expenses	<u>696,053</u>	<u>6,839,338</u>	<u>7,535,391</u>	<u>631,359</u>	<u>11,400</u>	<u>8,178,150</u>

See accompanying notes to the financial statements.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
of Irvington Community School, Inc.  
Indianapolis, Indiana:

We have audited the financial statements of Irvington Community School, Inc. as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated February 26, 2013. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of Irvington Community School, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Irvington Community School, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Irvington Community School, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclose no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Irvington Community School, Inc.'s Board of Directors, management, others within the School, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sikich, LLP". The signature is written in a cursive, flowing style.

Sikich LLP

Indianapolis, Indiana  
February 26, 2013

**IRVINGTON COMMUNITY SCHOOL, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the Indiana Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	FY 2011-2012	\$ 225,275
School Breakfast Program	10.553	FY 2011-2012	18,966
Total for Child Nutrition Cluster			<u>244,241</u>
Total for U.S. Department of Agriculture			<u>244,241</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the Indiana Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	FY 2010-2011	153,114
		FY 2011-2012	<u>419,614</u>
Total for program			572,728
ARRA - Title I Grants to Local Educational Agencies*	84.389	FY 2011-2012	<u>43,140</u>
Total for Title I, Part A Cluster			<u>615,868</u>
Special Education Cluster (IDEA)			
Special Education Grants to States	84.027	FY 2011-2012	<u>134,757</u>
Education Technology State Grants Cluster			
ARRA - Education Technology State Grants*	84.386	FY 2011-2012	<u>2,846</u>
Improving Teacher Quality State Grants	84.367	FY 2011-2012	<u>76,346</u>
Education Job Fund	84.410	FY 2011-2012	<u>5,493</u>
Teacher Incentive Fund	84.374	FY 2011-2012	<u>251,839</u>
Total U.S. Department of Education			<u>1,087,149</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,331,390</u></u>

\* Grant relates to the American Recovery and Reinvestment Act of 2009



**IRVINGTON COMMUNITY SCHOOL, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the Indiana Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	FY 2010-2011	\$ 173,568
School Breakfast Program	10.553	FY 2010-2011	13,824
Total for Child Nutrition Cluster			<u>187,392</u>
Total for U.S. Department of Agriculture			<u>187,392</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the Indiana Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	10-9330	58,292
		11-9330	<u>170,086</u>
Total for program			228,378
ARRA - Title I Grants to Local Educational Agencies*	84.389	ARRA	<u>104,583</u>
Total for Title I, Part A Cluster			<u>332,961</u>
Special Education Cluster (IDEA)			
Special Education Grants to States	84.027	10-9330	<u>109,668</u>
Education Technology State Grants Cluster			
ARRA - Education Technology State Grants*	84.386	ARRA	<u>3,333</u>
Charter Schools	84.282	10-9330	<u>249,200</u>
Improving Teacher Quality State Grants	84.367	10-9330	<u>136,527</u>
Education Job Fund	84.410	10-9330	<u>156,093</u>
Total U.S. Department of Education			<u>987,782</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,175,174</u></u>

\* Grant relates to the American Recovery and Reinvestment Act of 2009

**IRVINGTON COMMUNITY SCHOOL, INC.**  
**NOTE TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2012 AND 2011**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedules of expenditures of federal awards include the federal grant activity of Irvington Community School, Inc. and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
of Irvington Community School, Inc.  
Indianapolis, Indiana:

**Compliance**

We have audited Irvington Community School, Inc.'s compliance with types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Irvington Community School, Inc.'s major federal programs for the years ended June 30, 2012 and 2011. Irvington Community School, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Irvington Community School, Inc.'s management. Our responsibility is to express an opinion on Irvington Community School, Inc.'s compliance based on our audits.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Irvington Community School, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audits do not provide a legal determination on Irvington Community School, Inc.'s compliance with those requirements.

In our opinion, Irvington Community School, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012 and 2011. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1.

## Internal Control Over Compliance

The management of Irvington Community School, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Irvington Community School, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Irvington Community School, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

The School's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. We did not audit the School's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of Irvington Community School, Inc.'s Board of Directors, management, others within the School, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Sikich LLP

Indianapolis, Indiana  
February 26, 2013

**IRVINGTON COMMUNITY SCHOOL, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

***Financial Statements:***

- Type of auditors' report issued: **unqualified**

***Government Auditing Statements***

*Internal control over financial reporting:*

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   No

*Compliance:*

- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

***OMB Circular A-133:***

*Internal control over major programs:*

- Material weakness(es) identified?   X   Yes    \_\_\_\_\_ No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes      X   No

*Compliance with requirements applicable to each major program:*

- Identification of major programs:

	<b>Title I, Part A Cluster</b> <b>Child Nutrition Cluster</b> <b>Special Education Cluster</b> <b>84.367 Improving Teacher Quality Grant</b> <b>84.282 Charter Schools</b>
--	--

- Dollar threshold used to distinguish between type A type B programs: **\$ 300,000**
- Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes      X   No
- Type of auditors' report issued on compliance for major programs: **unqualified**
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes      X   No

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

- *None*

**IRVINGTON COMMUNITY SCHOOL, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
(continued)  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

***FINDING 2011-1 - INTERNAL CONTROLS OVER CASH MANAGEMENT***

Federal Agency: U.S. Department of Education

Federal Program: Title I, Part A Cluster

CFDA Number: 84.010, 84.389

Federal Award Number and Year (or Other Identifying Number): 09-9330, 10-9330, 11-9330

Pass-Through Entity: Indiana Department of Education

Proper internal controls were not in place to ensure that surplus cash was not on hand. Amounts received by the School Corporation for the Title I, Part A Cluster grants were drawn down in advance. School Corporation officials are required to review needs and draw funds as needed in accordance with federal guidelines. The drawdown requests are included in the applications for grant funds. The cash balance of Title I, Part A Cluster grant funds exceeded the allowable cash balance based on estimated future requirements for two of the twelve months in 2009-2010 and two of the twelve months in 2010-2011. The cash balances of all Title I, Part A Cluster grants at June 30, 2010 and 2011, as reported to the Indiana Department of Education, were \$69,064.03 and \$106,949.26, respectively, which was approximately 16 percent of the total grants received during 2009-2010 and 29 percent of the total grants received during 2010-2011. In both instances, the estimated cash needs in the few months subsequent to year end did not substantiate the need for this amount of cash. Cash drawdown requests were not revised to ensure there would not be excess cash on hand throughout the school years.

Due to the magnitude of non-compliance and weaknesses in internal controls, we have determined this to be a material weakness.

34 CFR 80.20 (b)(7) states:

"Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

**IRVINGTON COMMUNITY SCHOOL, INC.**  
OTHER REPORT  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

The reports presented herein were prepared in addition to another report prepared for the School as listed below:

Supplemental Audit Report of Irvington Community School, Inc.



## Corrective Action Plan

### **School Officers**

David J. Nidiffer,  
CEO/CFO

Tim Mulherin, COO

Al Holok, CAO

### **Board of Directors**

Jeffrey M. Løzer  
(Chair)

Geoffrey Slaughter  
(Secretary)

John A. Williams  
(Treasurer)

Barato L. Britt

Garland Graves

Michael A. Welch

Robert Vane

### **Advisory Board**

Leslie Hiner  
(Former Chair)

Program: Title 1, Part A Cluster  
CDFA# 84.010  
Finding#: 2011-1  
Audit Period: 07-01-09 to 06-30-2011

### FEDERAL FINDING 2011-1, INTERNAL CONTROLS OVER CASH MANGEMENT

Federal Agency: U.S. Department of Education  
Federal Program: Title I, Part A Cluster  
CFDA Number: 84.010, 84.389  
Federal Award Number and Year (or Other Identifying Number): 09-9330, 10-9330, 11-9330  
Pass-through Entity: Indiana Department of Education

Proper internal controls were not in place to ensure that surplus cash was not on hand. Amounts received by the School Corporation for the Title I, Part A Cluster Grant were drawn down in advance. School Corporation Officials are required to review needs and draw funds as needed in accordance with federal guidelines. The drawdown requests are included in the applications for grant funds. The cash balance of Title I grant funds exceeded the allowable cash balance based on estimated future requirements for two of the twelve months in 2009-2010 and two of the twelve months in 2010-2011. The cash balances of all Title I grants at June 30, 2010 and 2011, as reported to the Indiana Department of Education, were \$69,064.03 and \$106,949.26, respectively, which was approximately 16% of the total grants received during 2009-2010 and 29% of the total grants received during 2010-2011. In both instances, the estimated cash needs in the few months subsequent to year end did not substantiate the need for this amount of cash. Cash drawdown requests were not revised to ensure there would not be excess cash on hand throughout the school years.



Due to the magnitude of non-compliance and weaknesses in internal controls, we have determined this to be a material weakness.

34 CFR 80.20 (b)(7) states in part: "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Surplus cash indicates noncompliance with the cash management requirement as set forth by the grant agreement. Additionally, failure to minimize the cash on hand may cause future funding to be reduced by the pass-through agency.

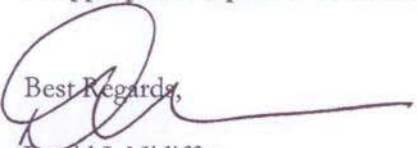
We recommend that School Corporation Officials develop and implement procedures and controls to ensure that the time between the receipt and disbursement of federal funds is minimized according to the grant requirements.

### **Corrective Action Plan**

Irvington Community School, Inc. (ICS) did not appropriately estimate the Title I funds needed versus amounts requested in a timely fashion causing a surplus of cash. **All funds were ultimately used and used appropriately for Title I services.** ICS and IDOE have already implemented measures to mitigate this from happening in the future:

- IDOE has modified the allowable methodology for reimbursement for Title I funds from total monies awarded divided by 12 to get monthly allotments in SY09-10 to estimates of monies spent in future periods (for example, ICS would estimate dollars need in a given month and ask for funds at the beginning of the month) in SY10-11 to the current actual reimbursement method for SY11-12. Because of these changes Title I surpluses should not accumulate in the future;
- For SY11-12, ICS performed a review of its Title I budget versus spend/reimbursement process to ensure appropriate timing of the request for funds;
- ICS will review the timing of Title I reimbursements quarterly with the BOD Treasurer to ensure proper timing of the reimbursement requests; and
- ICS will work with their outside bookkeeper to ensure timely record keeping in the booking of appropriate expenses to the Title I fund balances.

Best Regards,

  
David J. Nidiffer  
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